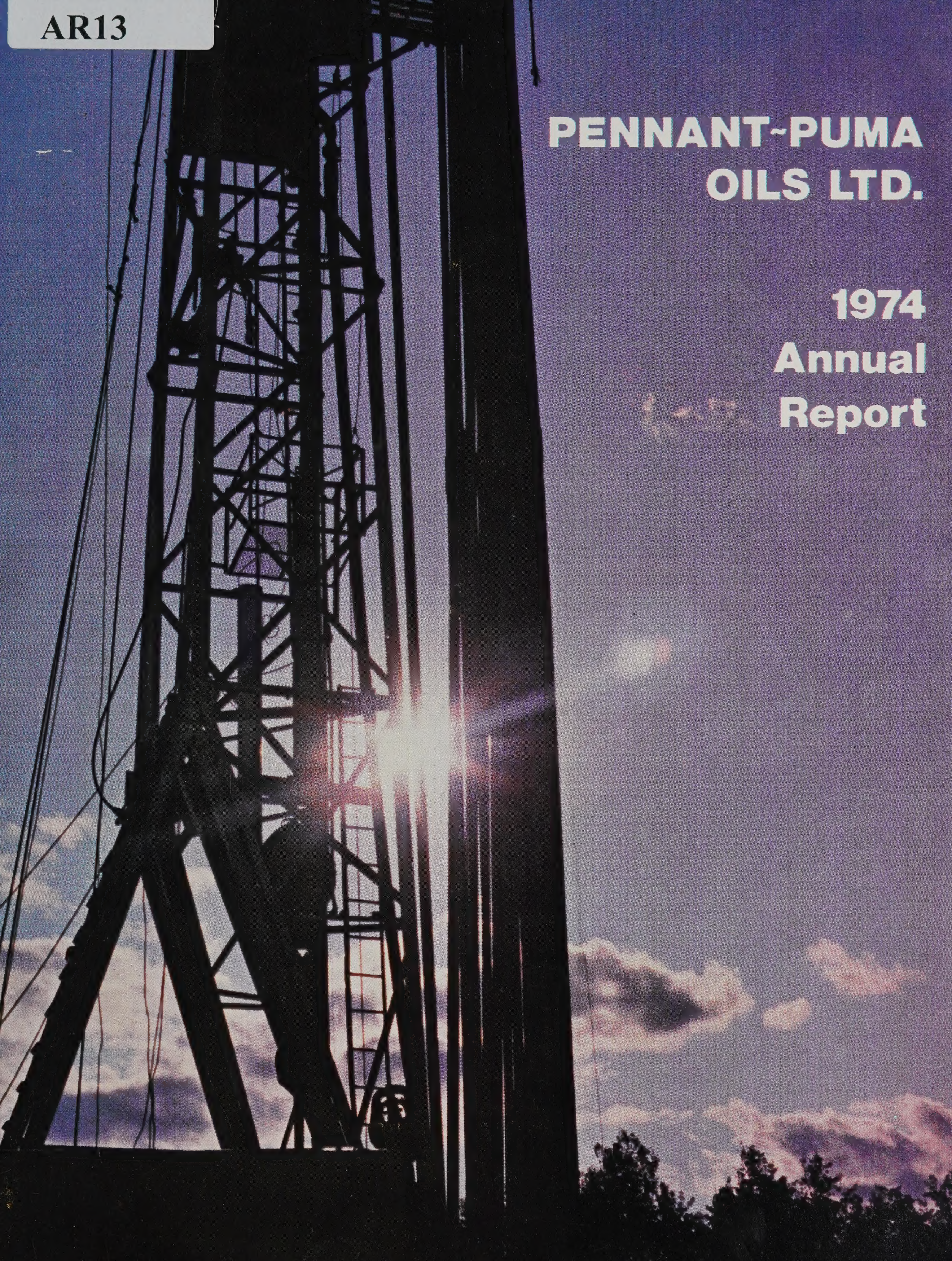


PENNANT-PUMA OILS LTD.

1974 Annual Report

PENNANT-PUMA OILS LTD.

1130 Elveden House, Calgary, Alberta T2P 0Z3

DIRECTORS

*+	GLENN S. BRANT, P. Eng.	Calgary, Alberta
	JOHN J. CHRISTMANN	Lubbock, Texas
+	ARDEN R. GROVER	Midland, Texas
*+	CHARLES L. McALPINE	Toronto, Ontario
*	JOHN J. REDFERN, JR.	Midland, Texas
	JOHN J. REDFERN, III	Midland, Texas
	NATHAN L. SANDLER	Toronto, Ontario
	J. RONALD WOODS	Toronto, Ontario

* Member Executive Committee
\+ Member Audit Committee

OFFICERS

John J. Redfern, Jr.
Chairman of the Board

Glenn S. Brant, P. Eng.
President and General Manager

John J. Christmann
Vice-President

John J. Redfern, III
Secretary

C. E. Christmann
Assistant Secretary

Robert J. Iverach
Assistant Secretary

Terrance J. Wright
Assistant Secretary

KEY PERSONNEL

David J. Duncan, P. Geol.
Chief Geologist

Kenneth M. Baher, P. Eng.
Petroleum Engineer

Terrance J. Wright, B.A.
Senior Accountant

Marvin J. Aarbo
Landman

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 9:00 a.m., Local Time on Friday, May 16th, 1975, at the Glendale Room, Calgary Convention Centre, Calgary, Alberta, Canada.

STOCK EXCHANGE LISTING

Toronto

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust
Calgary, Montreal, Toronto, Vancouver

AUDITORS

Thorne Riddell & Co., Calgary, Alberta

TO OUR SHAREHOLDERS:

The Board of Directors is pleased to present the following report on the operations of your Company during 1974. Combined exploratory and development drilling was comparable to the previous year with working interests held in 23 wells resulting in seven gas completions, one of which was an exploratory success. Gross oil and gas production was 417 BOPD and 4,425 Mcf/D, down from the 504 BOPD and 5,368 Mcf/D levels achieved in 1973. Reflecting sharply increased wellhead prices, gross oil and gas sales rose by 33.2% to $1,202,295. Unfortunately, increased provincial government payments more than offset the rise. Consequently the Company's share of wellhead sales dropped by 7% to $719,164.

Net before tax earnings for the year, including extraordinary items, was $63,638 compared to $79,999 realized in 1973. However, after providing for deferred income taxes a net loss of $8,462 results in contrast to a profit of $58,393 recorded the previous year. This paradoxical situation is caused by the non-deductibility of Saskatchewan Crown royalties and rental payments pursuant to the latest Federal Budget. In Alberta, the effect on the Company of the taxation of these payments will be offset by the recently announced Alberta Petroleum Exploration Plan.

While the Company's progress in 1974 did not meet desired objectives, the future holds promise for considerable improvement. Contract amendments which became effective during the year increased the average selling price of gas from 18¢/Mcf to 25¢/Mcf by year end. Substantial additional increments are expected following redetermination of Alberta gas prices which will take place during the current year.

Also, one gas property in Alberta was placed on production in January 1975 and with additional development several more are expected to go on stream within the year. Reserves attributed to the non-producing properties represent a potential additional 7,000 Mcf/D of gas production for the Company. This is expected to be realized in full by the end of 1976 and at prices substantially above the current Alberta new gas price of 60¢/Mcf.

During 1974 the Canadian resource industries were subjected to damaging increases in royalties and taxes by both Federal and Provincial governments. A marked slowdown in the pace of exploration for new oil and gas reserves in Western Canada has resulted. Recent developments indicate that officials at both levels of Government are becoming aware of the untenable position of the Industry. Hopefully, this will bring an early agreement between governments to provide a fair return to the producer and thereby encourage exploration and development of new oil and gas supplies so vital to the future welfare of Canadians. While the multifarious incentive plans of the Alberta government are encouraging, they are insufficient to offset loss of investor confidence. This will only happen when suitable long term policies have been implemented. Shareholders are urged to contact their elected representatives to express concern over the current political dispute and the adverse effect it is having on their investment in the Company.

In this climate of uncertainty, your Company has reduced its exploratory program and limited development drilling to those areas from which early sales can reasonably be anticipated. In the interim, oil and gas projects are being evaluated and assembled for drilling in partnership with other operators. Prospective landholdings will be maintained and additional lands will be sought on new geological prospects. This program will allow a quick return to the pre-crisis level of exploratory activity when economic and political conditions warrant.

The outlook for the Company's oil operations in the Province of Saskatchewan continues to be unsettled. Production was hampered by unusually harsh weather conditions, unforeseen operating difficulties and market proration, and therefore declined more than expected. Despite recently announced incentive plans for Saskatchewan oil producers, Federal income taxes can actually exceed the cash flow from the Company's properties. Therefore the combined burden of Provincial royalties and Federal taxes must be reduced substantially in order to remedy this ludicrous situation. A detailed analysis is presented on Page 10.

Working capital at year end was $93,070 compared to $525,784 at the beginning. Arrangements have been made for sufficient bank credit to enable your Company to carry out its development program and fulfill its ongoing commitments. Outstanding bank production loans were reduced from $424,458 to $140,568 during 1974.

In February 1975 the resignation of Mr. Robert R. Topp as a Director of the Company was received with much regret. Mr. Topp joined the Board of a predecessor Company in 1972 and was a member of the Company's Executive Committee since amalgamation. The Directors wish to thank Mr. Topp for his significant contributions to the growth of your Company. The Board was returned to its full complement by the election of Mr. C. L. McAlpine, President of Campbell Chibougamau Mines Ltd.

It is reported with sorrow that Mr. F. L. Croteau, former President and a Director of Puma Petroleums Ltd. passed away in late February this year. Mr. Croteau was one of the principals involved in the organization of Puma and participated fully in its subsequent development.

Under the Employee Stock Incentive Plan, as approved by the Shareholders last year, the Company issued 22,950 shares and granted options on an additional 22,500 shares. The Company's Group Retirement Savings Plan was also inaugurated in 1974 with 100% participation by employees.

The political events of the past year have been keenly felt by the employees whose future is also closely linked to the final outcome. The Board expresses sincere appreciation to this highly valued team for the continued loyal efforts being made on behalf of the Company during these trying times.

Respectfully submitted
on Behalf of the Board

John J. Redfern Jr.

JOHN J. REDFERN, JR.
Chairman

Glenn S. Brant

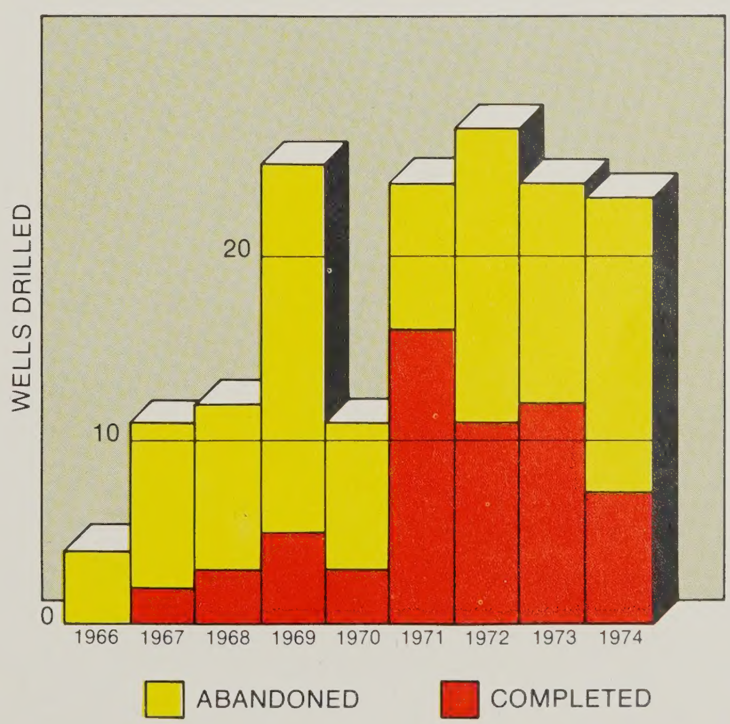
GLENN S. BRANT
President

Exploration and Development

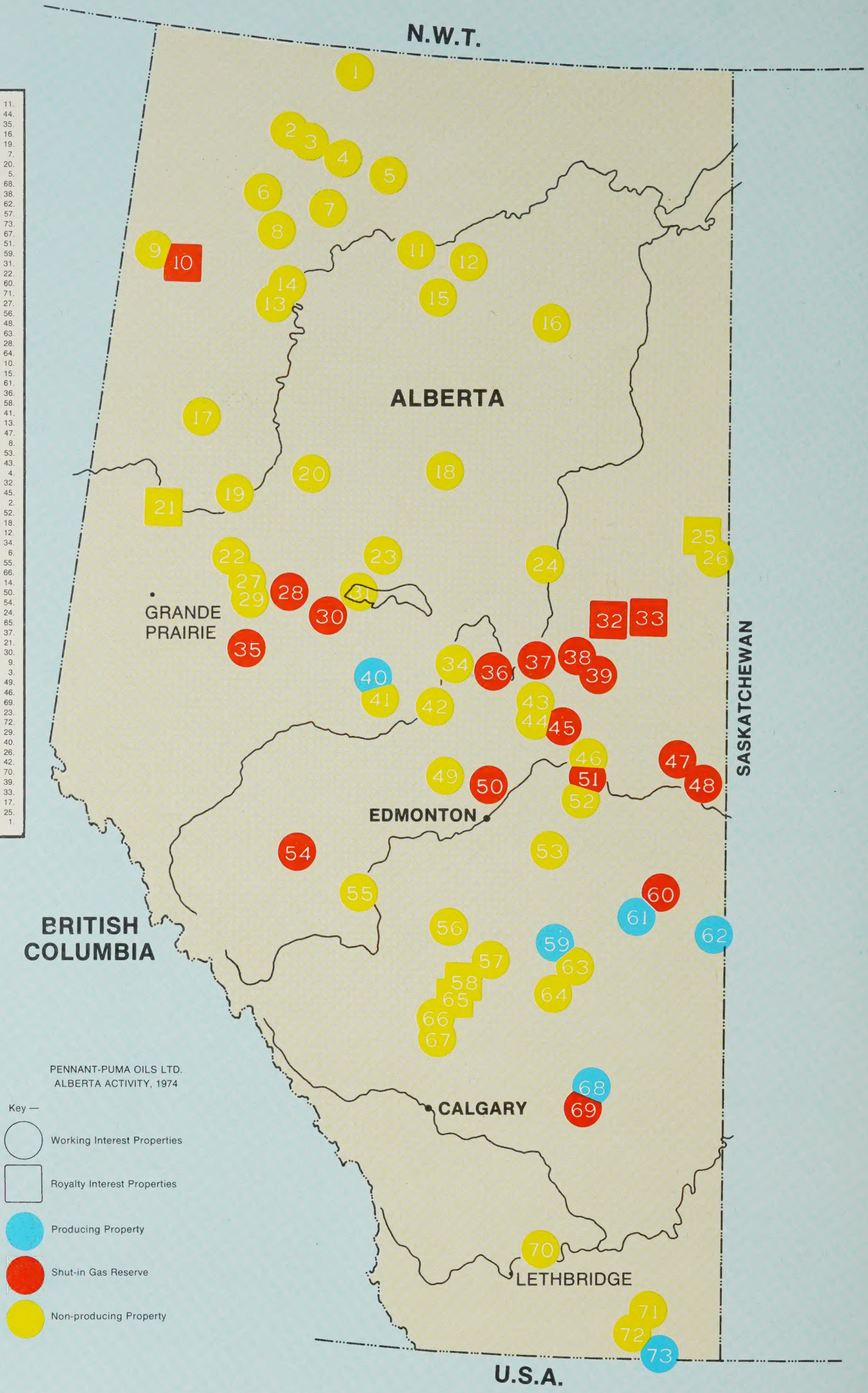
In 1974 the Company participated with direct working interests in sixteen tests, six of which were completed as gas wells. An additional seven wells were drilled by others on lands farmed out from the Company resulting in one gas producer. The year's drilling activity is summarized below:

	Oil	Gas	Dry	Total
Working Interest Wells				
Exploratory				
Direct	—	—	8	8
Farmout	—	1	5	6
	—	1	13	14
Development				
Direct	—	6	2	8
Farmout	—	—	1	1
	—	6	3	9
Royalty Interest Wells				
Exploratory	—	2	1	3
TOTAL	—	9	17	26

The history of drilling by the Company and its predecessors since 1966 is presented below in bar graph form. The relative locations of oil and gas properties held in Alberta, where all of the Company's Canadian exploration and development activity is taking place, are illustrated on map to be found on the following page.

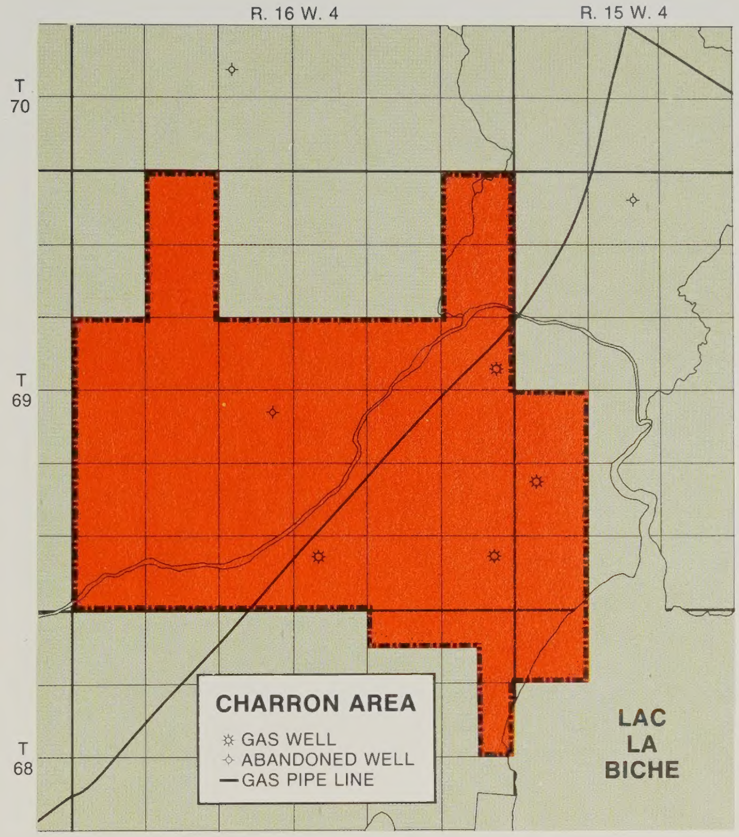


Adams Landing	11.
Alpen	44.
Asplund	35.
Birch	16.
Brownvale	19.
Bushe River	7.
Cadotte	20.
Caribou River	5.
Cessford	68.
Charron	38.
Chauvin South	62.
Clive	57.
Comrey	73.
Crossfield East	67.
Cucumber Lake	51.
Donalda	59.
Driftpile	31.
Eaglesham	22.
East Viking	60.
Etzikom	71.
Forestview	27.
Forshee	56.
Frog Lake	48.
Gadsby	63.
Gilwood	28.
Hackett	64.
Haig River	10.
Harper Creek	15.
Hawkins	61.
Island Lake	36.
Joffre	58.
Judy Creek	41.
Keg River	13.
Kehiwin	47.
Kidney Pond	8.
Kingman	53.
Kinikinik	43.
Little Rapids	4.
Logan River	32.
Lucky Lake	45.
Lutose Creek	2.
Luzan	52.
Maria Lake	18.
Moose Creek	12.
Mitsue South	34.
Negus Creek	6.
O'Chiese	55.
Olds	66.
Paddle Prairie	14.
Peavey	50.
Peco	54.
Pelican River	24.
Penhold	65.
Pleasant	37.
Poplar Ridge	21.
Prairie River East	30.
Rainbow South	9.
Roe River	3.
Sion	49.
South Bellis	46.
South Connorsville	69.
South Utikuma	23.
Smith Coulee	72.
Sturgeon Lake North	29.
Swan Hills	40.
Sweezy Creek	26.
Timeu	42.
Turin	70.
Venice	39.
Wiau Lake	33.
Whitemud River	17.
Winefred Lake	25.
Yates	1.



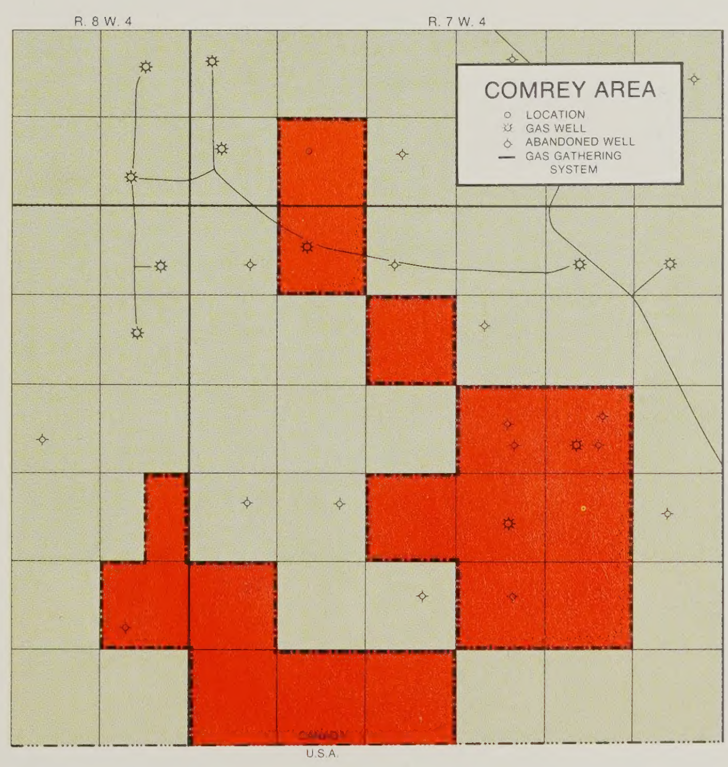
PENNANT-PUMA OILS LTD.
ALBERTA ACTIVITY, 1974

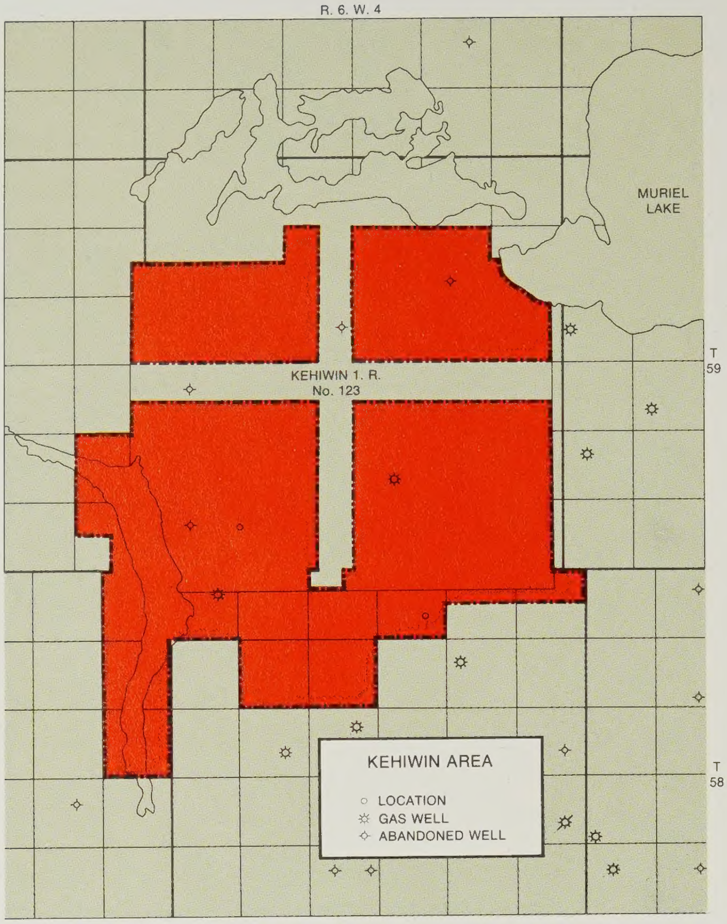
At CHARRON, Alberta, two development gas wells were drilled in followup to the two 1973 discovery wells. Further development drilling is planned this year subject to the making of necessary contractual arrangements with an offsetting operator. A transmission pipeline has been constructed across these properties and may offer an early market for these reserves. A final decision on marketing of gas from this project will be made after evaluation of further drilling results. The Company's interest in this area varies from 13.1% to 17.5%.



A Bow Island Chert gas discovery was completed in Lsd 7-15-1-7 W4M in the COMREY, Alberta area by Clearport Petroleums on a multi-well farmout of lands wholly owned by the Company. Two additional farmout earning wells were drilled subsequently and abandoned. The interests retained comprise a royalty on the discovery well, convertible to a 50% working interest after payout, and 50% in the remaining farmout lands. The Company participated as to a 50% interest in an offsetting Bow Island gas well drilled to earn additional acreage from a neighbouring landholder. Evaluation tests will be conducted on these two wells in early summer with anticipated pipeline connection before year end. Additional development drilling is contemplated subject to production test results.

Also at COMREY, the CNW RDM et al Comrey 11-32-1-7 multizone gas well reached payout and the Company converted its royalty interest to a 50% working interest. An offsetting joint development well will be drilled this year. Profitability of gas production at Comrey improved dramatically with the increase in gas price to 80¢/Mcf on January 1st, 1975.

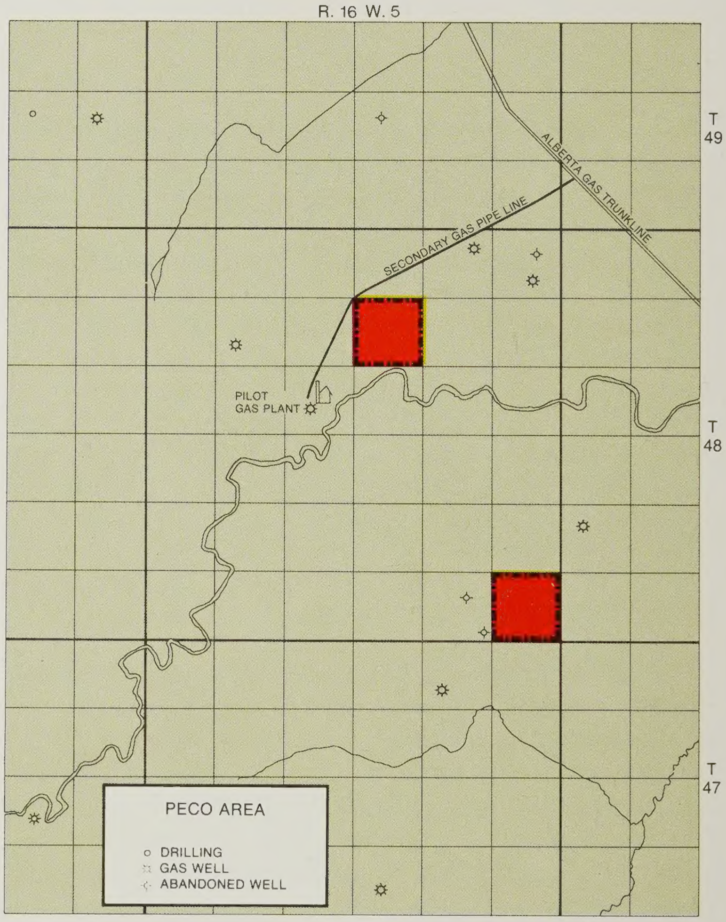




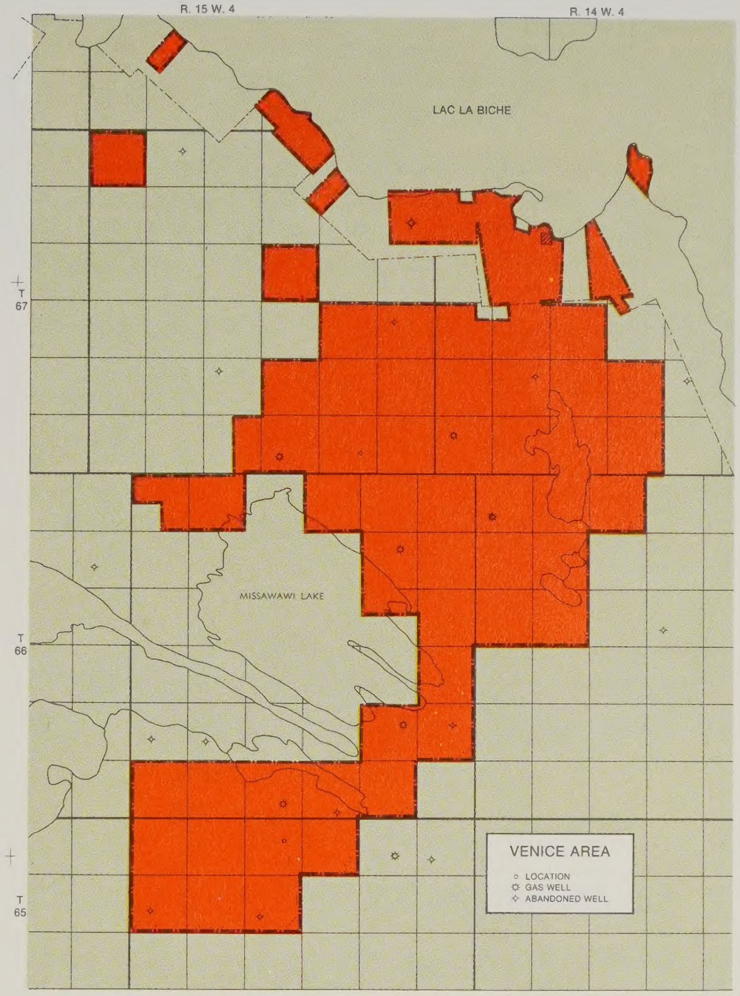
Significant developments are taking place in the KEHIWIN - FROG LAKE region of eastern Alberta where the Company holds 93.75% in 41,107 acres of Indian and Alberta Crown leases. As shown on the detailed map, five gas wells have been completed in the immediate vicinity of the Kehiwin properties on which two gas wells were drilled by the Company in 1971. At Frog Lake, two gas wells were drilled nearby, also enhancing the potential of the Company's land in this area.

Saskatchewan Power Corporation has applied for a provincial gas export licence covering an area which includes the Kehiwin - Frog Lake region. Its proposed initial price is 73¢/Mcf with provision for bi-annual price redeterminations commencing in 1976. Development of the Kehiwin properties will proceed this summer in anticipation of commencement of sales by year end.

At PECO, Alberta, a 35% interest was acquired in a 640 acre Crown lease, increasing the Company's interest in this condensate rich gas area to 864 net acres. A pilot production test of the diagonally offsetting gas well, Ocelot et al Peco 6-21-48-16, has been in progress since March 1974. This well was reported to be producing at an average rate of 3,019 Mcf/D during December, having produced 852,832 Mcf during the nine month test period. Development of this property will be undertaken when definite plans have been made by the field operators for the construction of gathering and processing facilities.



Additional development is contemplated for the VENICE, Alberta project on which six gas wells have already been completed. The Company has a contract providing for the sale of gas commencing as soon as construction of surface facilities can be completed. The gas price under this contract is currently being redetermined effective November 1st, 1975 and an increase over the existing 60¢/Mcf is expected. The Company's interest at Venice varies from 17% to 35%.



Other areas of continuing activity together with the Company's interest therein are described below:

Lucky Lake, Alberta (17½%) Followup development drilling to the two gas wells drilled in 1973 awaits partner approval and is expected to take place during the 1975-76 winter season.

Pleasant Gas Field, Alberta (5% increasing to 12½% after payout) Construction of surface production facilities is scheduled for later this year with a target date for commencement of sales set for November 1st, 1975. The initial gas price is currently being determined by arbitration.

Viking, Alberta (17½%) A dual zone gas well was completed late in the year and placed on production in January 1975 with an initial price of 57¢/Mcf.

Island Lake, Alberta (8.75%) A gas market is expected to be available to this area in early 1976 and plans are now being formulated for development drilling in followup to the gas discovery made last year.

Canadian Offshore, Eastern Canada (33-1/3%) Two oil and gas permits, comprising 72,169 acres are held approximately forty miles from the Labrador Coast. The Eastcan et al Gudrid H-55 gas discovery recorded in 1974 is located about 27 miles northeast of the southerly block.

Joint Acquisition Program

The Company's joint acquisition program agreement was renewed for 1975. Evaluation of potential purchases continue, but uncertainties as to price, royalties and taxes have made acquisition of properties on acceptable terms very difficult. The future of this program will therefore be dependent on satisfactory resolution of the current political situation.

Landholdings

The Company has effectively maintained its inventory of oil and gas rights, holding working interests at year end in 1,286,382 acres (net 463,932 acres) compared to 1,291,534 acres (net 463,197 acres) held one year ago. A comparison of year end holdings by classification is presented in the following tabulation:

The Company's royalty properties comprise a one percent interest in 532,795 acres of exploratory permits on BANKS ISLAND, N.W.T., a 0.67% interest in 1,603,687 acres in offshore NEWFOUNDLAND and varying interests in 130,103 acres in ALBERTA. The latter contain five shut-in gas wells with interests therein varying between 1.0% and 2.5%.

	1974 Gross (acres)	1974 Net (acres)	1973 Gross (acres)	1973 Net (acres)
Working Interest				
P & NG Leases	251,349	95,115	233,347	93,815
Natural Gas Leases	68,414	18,108	71,608	16,870
Permits & Reservations	966,619	350,709	986,579	352,512
Sub-total	1,286,382	463,932	1,291,534	463,197
Royalty Interests	2,266,585	—	2,282,269	—
GRAND TOTAL	3,552,967	463,932	3,573,803	463,197

Foreign

North Sea

The Company sold 70,000 shares of its Berry-Wiggins & Co. Limited's holdings at 135 pence ($3.12/share) and now holds 157,739 shares representing approximately 1.3% of its outstanding common stock. Recently Berry-Wiggins announced the sale of a bitumen plant and the entering into of a joint worldwide bitumen marketing arrangement with British Petroleums. This transaction, along with the announcement of favourable tax laws for United Kingdom oil and gas operators, has improved the outlook for Berry-Wiggins which held at last report varying interests in 708,401 acres of oil and gas rights in the U.K. Sector of the Northwest European Continental Shelf. At least four wells are expected to be drilled on these properties within one year's time. Berry-Wiggins also owns and operates a major refinery works and holds interest in several oil and gas industry related service and supply enterprises. Berry-Wiggins' shares trade on The London Stock Exchange.

United States

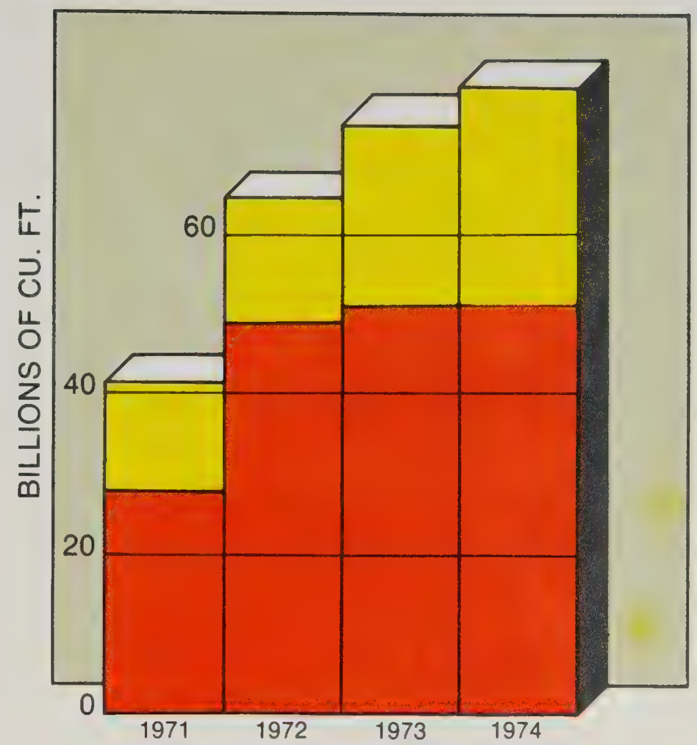
The Company participated with a 10% interest in an unsuccessful 9,875' exploratory farmout test in Pecos County, Texas. The project is still active with additional seismic to be conducted this summer.

The combination of political uncertainties and unrealistic demands of foreign governments for high signature bonuses has made the risk associated with overseas concession projects prohibitive for the Company. However, the Company will continue to pursue oil and gas projects in the United States.

Oil and Gas Reserves

Set forth below are the comparative year end gross working interest reserves of the Company as calculated by its technical staff. These calculations have been made on a basis consistent with generally accepted industry practice.

	1974	1973
PROVEN		
Oil (Bbls)	1,056,100	1,156,200
NG Liquids (Bbls)	591,500	605,900
Natural Gas (Mcf)	51,360,000	51,274,000
PROBABLE		
Oil (Bbls)	253,400	355,400
NG Liquids (Bbls)	313,500	272,600
Natural Gas (Mcf)	24,568,000	22,101,000
TOTAL		
Oil (Bbls)	1,309,500	1,511,600
NG Liquids (Bbls)	905,000	878,500
Natural Gas (Mcf)	75,928,000	73,375,000



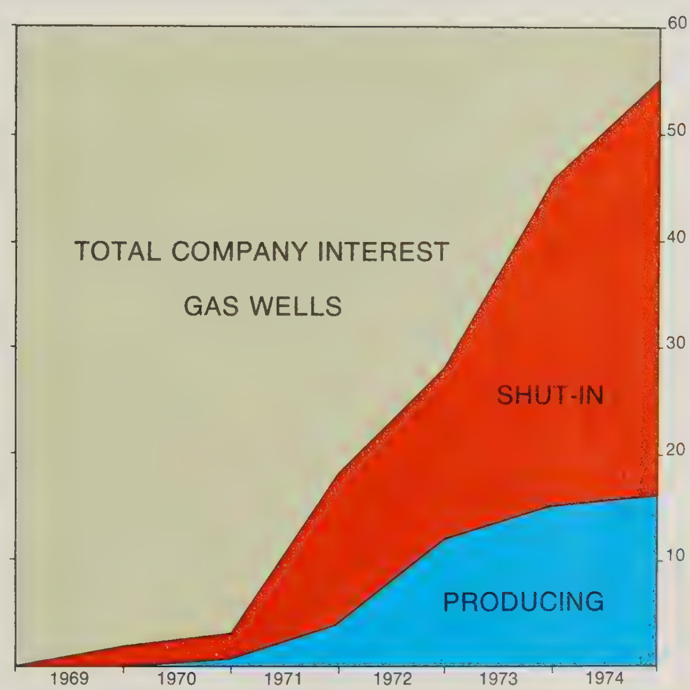
GROSS NATURAL GAS RESERVES

Production

(Before deduction of royalties)

	1974	1973
Daily Oil (Bbls)	417	504
Yearly Oil (Bbls)	152,060	183,795
Daily Gas (Mcf)	4,425	5,368
Yearly Gas (Mcf)	1,615,091	1,959,281

Of major concern to the Company has been the lack of adequate market outlets and the resulting delay in development of and production from many gas properties. Non-producing gas properties, which contain approximately 63% of the Company's reserves and a total of 39 shut-in gas wells, represents a major asset. The growth in shut-in versus producing gas well interests, which parallels the reserves situation, is illustrated by a graph opposite. These properties represent a potential additional 7,000 Mcf/D of gas production which is expected to be realized in full by the end of 1976.



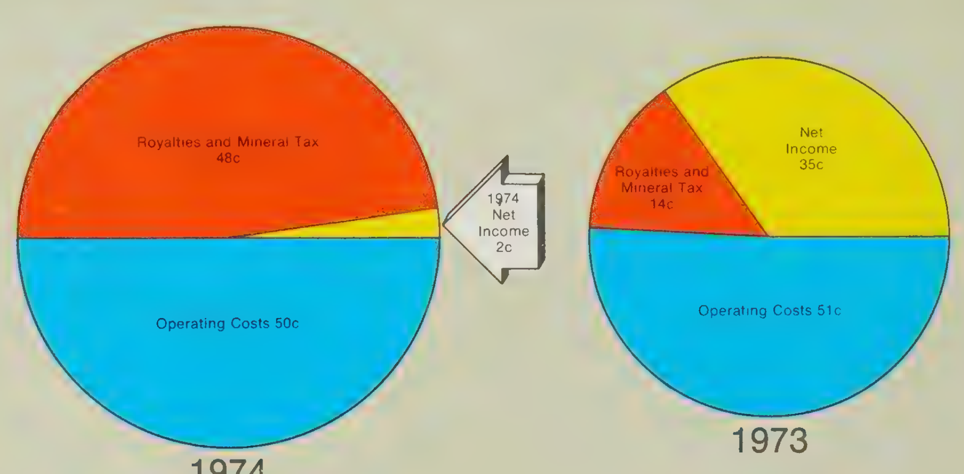
ALBERTA GAS WELLS — YEAR-END TOTALS
(EXCLUDES WELLS ACQUIRED THROUGH UNITIZATION)

Saskatchewan

Although the Saskatchewan oil properties can be expected to make a smaller proportionate contribution to the Company's future annual cash flow, the situation in this Province continues to be a matter of concern. The before-tax division of the Company's Saskatchewan oil dollar is presented graphically below. While the cash flow in 1974 was reduced by abnormal non-recurring costs, the effect of Bill C-42 is still obvious. The following tabulation gives the 1974 versus 1973 operating results for Saskatchewan oil properties after provision for deferred income taxes. This comparison points out the ludicrous and severely crippling result of Saskatchewan's Bill C-42 legislation when combined with the new Federal tax measures.

A major change in both the Federal tax structure and the Saskatchewan royalty and mineral tax laws will be required to restore a reasonable measure of profitability to these operations. Producers must soon begin to receive a reasonable and adequate share of resource profits. Otherwise, the Province's daily production will suffer a serious decline with premature abandonment of what could be profitable wells.

	1974	1973	% Change
Oil Production (Bbls/D)	388	479	(19.1)
Gross Sales Revenue	$817,629	$565,104	44.7
Royalty and Mineral Tax	392,160	80,484	387.3
Operating Costs	407,648	287,359	41.9
Cash Flow	17,821	197,261	(91.0)
Deferred Tax Liability	67,359	63,124	—
Net after Tax	$(49,538)	$134,137	—



HOW YOUR SASKATCHEWAN OIL DOLLAR'S WERE DIVIDED

Financial

Included with this report are the Balance Sheet for the Company as at December 31, 1974 and the Statements of Earnings, Deficit and Changes in Financial Position for the year then ended together with the Auditor's Report thereon. Comparative figures are given for the previous year.

Gross revenues, reflecting a decline in production and sharply increased provincial royalties and taxes, were $857,513 compared to $884,593 in 1973. Net earnings, before provision for income tax and including an extraordinary item of $85,428 were $63,638 ($0.028/share). Deduction of a deferred income tax liability of $72,100 results in an after tax loss of $8,462.

The Company's production bank loan at year end was $140,568 as compared to $424,458 at the end of 1973. Working capital declined to $93,070 from $525,784. During the year, $617,593 were expended on additions to fixed assets.

STATEMENT OF EARNINGS

For The Year Ended December 31, 1974

	1974	1973 (Note 1)
REVENUE		
Oil and gas sales	$1,202,295	$902,445
Less: Royalties and mineral taxes	483,131	129,203
	719,164	773,242
Management fees	97,500	97,500
Other	40,849	13,851
	857,513	884,593
EXPENSES		
Operating	471,847	334,123
General and administrative	122,915	148,310
Interest	42,154	54,998
Depletion and depreciation (Note 1)	242,387	267,163
	879,303	804,594
Earnings (loss) before income taxes and extraordinary item	(21,790)	79,999
PROVISION FOR DEFERRED INCOME TAXES (Notes 1 and 5)	49,900	21,606
Earnings (loss) before extraordinary item	(71,690)	58,393
EXTRAORDINARY ITEM		
Gain on sale of investments, net of applicable deferred income taxes of $22,200	63,228	—
NET EARNINGS (LOSS)	$ (8,462)	$ 58,393
EARNINGS (LOSS) PER SHARE (based on the weighted average number of shares outstanding during the year)		
Earnings (loss) before extraordinary item	$(.031)	$.03
Extraordinary item	.027	—
Net earnings (loss)	$(.004)	$.03

PENNANT-PUMA OILS LTD.

BALANCE SHEET As at December 31, 1974

Assets

	1974	1973 (Note 1)
CURRENT ASSETS		
Cash	$ 25,033	$ 53,173
Term deposits, at cost which approximates market value	75,000	200,000
Accounts receivable - trade	249,802	304,591
- Pennant Venture (Note 6)	174,764	114,526
- other	12,400	—
	536,999	672,290
INVESTMENTS (Note 2)		
Shares, at cost	295,792	428,512
Notes receivable from shareholders	212,752	182,917
	508,544	611,429
FIXED ASSETS		
Petroleum and natural gas rights together with exploration, development and equipment thereon, at cost (Note 1)	4,762,386	4,179,034
Accumulated depletion and depreciation (Note 1)	878,668	646,443
	3,883,718	3,532,591
Other equipment, at cost less accumulated depreciation of $23,076 (1973 - $12,914)	30,028	30,571
	3,913,746	3,563,162
OTHER ASSETS	52,183	45,035
	$5,011,472	$4,891,916

Liabilities

	1974	1973 (Note 1)
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 328,929	$ 146,506
Due to Pennant Venture (Note 6)	115,000	—
	443,929	146,506
BANK PRODUCTION LOANS (Note 3)	140,568	424,458
DEFERRED INCOME TAXES (Notes 1 and 5)	98,900	14,400
Shareholders' Equity		
CAPITAL STOCK (Note 4)		
Authorized		
5,000,000 common shares of no par value		
Issued		
2,314,609 shares (1973 - 2,291,592 shares)	4,350,832	4,320,838
CONTRIBUTED SURPLUS	13,466	13,475
DEFICIT	(36,223)	(27,761)
	4,328,075	4,306,552
	$5,011,472	$4,891,916

Signed on behalf of the Board:

Director

Director

STATEMENT OF DEFICIT

For the Year Ended December 31, 1974

	1974	1973
DEFICIT AT BEGINNING OF YEAR, as previously reported	$(13,361)	$(93,360)
Adjustment resulting from retroactive adoption of tax allocation accounting (Note 1)	(14,400)	7,206
DEFICIT AT BEGINNING OF YEAR, as restated	(27,761)	(86,154)
Net earnings (loss)	(8,462)	58,393
DEFICIT AT END OF YEAR	$(36,223)	$(27,761)

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1974

	1974	1973 (Note 1)
FUNDS PROVIDED BY		
Operations		
Earnings (loss) before extraordinary item	$(71,690)	$ 58,393
Charges not requiring funds		
Depreciation and depletion	242,387	267,163
Deferred income taxes (Notes 1 and 5)	62,300	21,606
	232,997	347,162
Issue of shares (Note 4)		
— for cash and promissory notes	29,985	648,128
— for petroleum and natural gas properties	—	250,000
Proceeds on sale of fixed assets	24,622	254,652
Proceeds on sale of investment	218,148	—
	505,752	1,499,942
FUNDS APPLIED TO		
Fixed asset additions	617,593	576,752
Reduction of bank production loans (net)	283,890	195,031
Share issue and amalgamation expenses	—	50,553
Notes receivable (Note 2)	29,835	36,351
Other	7,148	6,668
	938,466	865,355
INCREASE (DECREASE) IN WORKING CAPITAL	(432,714)	634,587
Working capital (deficiency) at beginning of year	525,784	(108,803)
WORKING CAPITAL AT END OF YEAR	$ 93,070	$ 525,784

NOTES TO 1974 FINANCIAL STATEMENTS

NOTE 1 ACCOUNTING POLICIES

Oil and Gas Properties

The Company follows the full cost method of accounting whereby all costs of exploring for and developing oil, gas and related reserves are capitalized. Such costs include land acquisition costs, costs incurred in connection with the Company's participation in the Pennant Venture (see Note 6), geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and production equipment and related facilities. These costs are amortized using the unit of production method based on estimated recoverable reserves as determined by Company engineers.

Income Taxes and Change in Accounting Policy

Prior to January 1, 1974 the Company claimed capital cost allowances and exploration and development costs for income tax purposes in excess of the depreciation and depletion provisions reflected in its accounts and provided in its accounts only for the taxes payable on its taxable income for the year.

During the current year the Company retroactively changed to the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method the Company provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowances and exploration and development costs in excess of the related amounts reflected in its accounts.

This change in accounting had the effect of decreasing net earnings for the years ended December 31, 1974 and 1973, by $72,100 ($.03 per share) and $21,606 ($.01 per share) respectively.

The 1973 accounts have been restated from those previously reported to give effect to the change in accounting for income taxes referred to above.

NOTE 2 INVESTMENTS

Shares

At March 19, 1975, the quoted market value of the Company's investment in Berry-Wiggins & Co. Limited (a public United Kingdom company) of 157,739 shares was $289,100 (see Note 3).

Notes Receivable	1974	1973
4½% share purchase notes	$166,351	$166,351
Non-interest bearing share purchase notes	29,835	—
4½% other notes	16,566	16,566
	$212,752	$182,917

The $166,351 4½% share purchase notes, of which $129,925 is due from officers of the Company, are secured by 77,617 shares of the Company.

The $29,835 of non-interest bearing notes, of which $11,310 is due from officers of the Company, are secured by 22,950 shares of the Company.

Of the $16,566 4½% other notes receivable, $9,940 is due from a private company wholly-owned by an officer of the Company.

Share purchase notes are repayable in varying instalments to 1985 (see Note 4). The first instalment due January, 1975 of $16,603 has been deferred at the discretion of the Executive Committee of the Board of Directors.

NOTE 3 BANK PRODUCTION LOANS

Bank production loans of $140,568 are secured by an assignment of accounts receivable, an assignment under Section 82 of the Bank Act of Canada relating to the Company's petroleum and natural gas leases and rights and a hypothecation of its investment in shares of Berry-Wiggins & Co. Limited, and are evidenced by promissory notes payable on demand. The banks have agreed to accept payment in instalments of approximately $16,000 per month, decreasing to $4,000 per month in March, 1975, from future oil and gas production and, accordingly, no portion of the loans have been included in current liabilities.

NOTE 4 CAPITAL STOCK

a) Capital stock transactions for the year were as follows:

	Number of Shares	
Balance, January 1, 1974	2,291,592	$4,320,838
Issued for cash on exercise of share purchase warrants	67	159
Issued for promissory notes on exercise of Employee Stock Purchase Plan	22,950	29,835
Balance, December 31, 1974	2,314,609	$4,350,832

b) The Company has reserved 22,500 common shares for issue on exercise of employee stock options. These options are exercisable cumulatively in equal annual instalments from October, 1974 through June 1979 at a price of $2.25 per share.

An additional 99,750 unissued common shares are reserved for the conversion of 299,250 share purchase warrants issued and outstanding at December 31, 1974. The warrants expire on March 31, 1976 and entitle the holder to purchase one common share of the Company's capital stock for each three warrants held, at a price of $2.25 per share.

A further 74,550 unissued common shares are reserved under the Employee Stock Purchase Incentive Plan. The Plan permits employees, with approval, to purchase common shares of the Company at not less than market price, up to a maximum of 20% of their annual salary and provides financing by way of interest free loans from the Company.

NOTE 5 INCOME TAXES

The federal government introduced on November 18, 1974 budgetary proposals to amend the Income Tax Act. These included a number of changes, several having retroactive effect to the date of an earlier budget on May 6, 1974, that will substantially increase the income taxes of the resource industries. These amendments, among other measures, require the Company to add to its taxable income the amounts of royalties and other similar payments to governments and impose limitations on the deduction of certain development expenses and on depletion allowances. They also provide some reduction in the rate of income tax applicable to resource production profits. The Provinces of Alberta and Saskatchewan have proposed to allow certain royalty refunds and tax credits based upon the federal tax levies.

The 1974 provision for deferred income taxes includes the effects of the above changes and is reported in the accompanying statement of earnings net of $12,400 currently receivable from the Province of Alberta. The provincial plans, referred to above, have not been enacted into legislation to date.

NOTE 6 PENNANT VENTURE

The Company acts as the manager of an exploration partnership (Venture) in which it is a 35% participant and accordingly is required to contribute 35% of the expenditures incurred. Amounts due to other partners of the Venture at December 31, 1974, to equalize the investment between partners have been included in the accompanying balance sheet.

NOTE 7 CONTINGENT LIABILITIES

The Company is contingently liable in the amount of $768,000 relating to bank financing arrangements of the Pennant Venture and a joint acquisition program. In the event the Company becomes subject to such liabilities, its rights of recourse include the right to obtain ownership of the petroleum and natural gas leases and rights now securing the financial arrangements.

NOTE 8 REMUNERATION OF DIRECTORS AND OFFICERS

During 1974, the Company paid remuneration of $5,500 to its eight directors in their capacity as directors. Senior officers as defined by the Alberta Securities Act received $123,930. One of the officers is also a director.

AUDITORS' REPORT

To the Shareholders
Pennant-Puma Oils Ltd.

We have examined the balance sheet of Pennant-Puma Oils Ltd. as at December 31, 1974 and the statements of earnings, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for income taxes as explained in Note 1 to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
March 19, 1975

THORNE RIDDELL & CO.
Chartered Accountants

PENNANT-PUMA OILS LTD.

1974 Annual Report

LITHOGRAPHED IN CANADA

Pennant-Puma
OILS LTD.

INTERIM REPORT

For Six Month Period
Ended June 30, 1974

To the Shareholder:

Significant progress has been made this year in both renegotiating prices on existing gas production and obtaining new gas sales agreements in Alberta. Effective November 1, 1974, fieldgate prices for the Company's share of sales from the Donalda and Hawkins Gas Units will increase to 24c and 27c/Mcf respectively with provision for a further renegotiation in 1975. The Company's Cessford contract price was increased to 26c/Mcf on November 1, 1973 and is also subject to renegotiation next year. Contracts will be signed providing for commencement of gas sales in 1975 from the Lucky Lake and Venice projects, at an initial price of 60c/Mcf, subject to renegotiation in 1975 and annually thereafter. In addition, negotiations are in progress for sale of gas from other shut-in gas reserve areas. The combination of these developments will result in an appreciable rise in Company revenues by the end of 1975.

The political climate under which the Oil and Gas Industry now operates has become untenable. The income tax measures proposed by the Federal Government, if implemented, when combined with sharply increased Provincial royalties and taxes, would make further exploration uneconomic. Investor confidence has dropped to an all time low making it impossible to raise new risk capital. Clearly, the confrontation between the two levels of Government over resource revenue sharing must be settled at once. Their final agreement must leave the Industry with a fair share of such revenues and provide adequate incentives to explore for new oil and gas reserves. Your Company's management is taking an active role, both directly and through Industry Associations, in presenting our case to all levels of Government.

During the six month period ended June 30, 1974, gross value of sales from the Company's oil and gas properties was $524,524, compared to $433,158 for the comparable period last year. However, increased royalty payments, most notably on Saskatchewan oil, more than offset this rise. Net profit after provision for deferred income tax for the period was $50,508, which includes an extra-ordinary gain on sale of securities of $64,498. An improvement in operating results over the remainder of the year is anticipated from higher production rates and improved prices on a portion of gas sales. Working capital declined from $525,784 at January 1, 1974 to $442,792 at June 30, 1974, accompanied by a lowering of outstanding bank indebtedness from $424,458 to $229,359.

CANADIAN EXPLORATION AND DEVELOPMENT

The Company held interests in eight wells drilled during the first half of 1974, resulting in one development gas completion and seven exploratory abandonments. Pending a satisfactory resolution of inter-

PENNANT-PUMA OILS LTD.

Statement of Earnings for the six months ended June 30, 1974
(Unaudited)

	1974	1973
Revenue		
Oil and Gas Sales	$ 524,524	$ 433,158
Less Royalties	187,287	59,477
	337,237	373,681
Management Fees	48,750	48,750
Other	17,591	6,641
	403,578	429,072
Expenses		
Operating	219,862	148,805
General and Administrative	67,137	97,620
Interest	22,121	23,590
Depletion and Depreciation	115,432	113,319
	424,552	383,334
Net profit (loss) before income taxes and extraordinary item	(20,974)	45,738
Deferred Income Tax	(6,984)	12,315
Net profit (loss) before extraordinary item	(13,990)	33,423
Extraordinary Item		
Profit on sale of Investment less applicable income taxes of $20,930	64,498	—
Net Earnings	$ 50,508	$ 33,423
Earnings per Share		
Net Profit (loss) before extraordinary item	(0.6)c	1.7c
Extraordinary item	2.8c	—
Net Earnings	2.2c	1.7c

Statement of Source and Application of Funds, six months ended June 30, 1974
(Unaudited)

	1974	1973
Source of Funds		
Net profit (loss) before extraordinary item	$ (13,990)	$ 33,423
Charges not requiring funds	108,448	125,634
	94,458	159,057
Issue of Common Stock — for cash	150	250,002
Sale of Investments	218,148	—
Sale of Oil & Gas Properties	—	185,000
Production Bank Loans	—	132,572
Reclassification of other assets	—	18,000
	312,756	744,631
Application of Funds		
Fixed Assets	193,915	134,529
Investments in Shares	—	34,136
Other Assets	6,734	7,012
Reduction of Bank Loan	195,099	291,208
Amalgamation Expense	—	34,445
	395,748	501,330
Increase (Decrease) in Working Capital	(82,992)	243,301
Working Capital (Deficiency) at Beginning of Period	525,784	(89,524)
Working Capital at end of Period	$ 442,792	$ 153,777

Governmental confrontation on resource revenue sharing, the Company is limiting its drilling program to existing commitment exploratory wells and development in project areas where gas sales in 1975 are assured. Also, its land portfolio which comprised a varying ownership in 3,579,590 acres (net 468,575 acres) at June 30, 1974 is being maintained.

PRODUCTION — SALES

Average daily net oil (before deduction of royalty surcharge) and gas production for the six month period were 340 BOPD and 3,720 Mcf/D compared to 427 BOPD and 4,288 Mcf/D achieved in 1973. The economics of oil production in Saskatchewan continue to be seriously impaired by the Government's collection of close to one-half of the wellhead price in royalty surcharge and mineral taxes. Also, prices received from gas sales to Saskatchewan Power Corporation remain at a level considerably below current commodity value. These factors, when combined with sharply increasing costs of operations, have reduced profits on production in that Province to a marginal level; a matter of great concern to your Company.

FOREIGN ACTIVITIES

The Company has acquired a 10% interest in a 10,000 ft. test to be drilled in Pecos County, Texas by Flag-Redfern Oil Company. The well, which is the initial U.S. venture for the Company, is scheduled for drilling in September 1974.

Holdings in Berry-Wiggins Co. Ltd., a U.K. corporation with interests in the North Sea play, were reduced to 156,006 shares by the sale of 70,000 shares for $218,148 Cdn. ($3.12/share). The current high interest rates on outstanding loans together with political uncertainties in Britain prompted this sale.

FINANCIAL

Presented overleaf are unaudited Statement of Earnings and Statement of Source and Application of Funds for the six month period ended June 30, 1974.

The Company has now adopted the deferred income tax method of accounting which reduced the first half net earnings by $13,946. Comparative earnings for last year have also been adjusted to reflect this policy.

CORPORATE

The Annual General Meeting of Shareholders was held on June 6, 1974, at which time the incumbent Directors were re-elected. The Company's slate of officers also remains unchanged.

For the Board of Directors
John J. Redfern, Jr.
Chairman

Glenn S. Brant
President

August 1974

Pennant-Puma OILS LTD.

LITHOGRAPHED IN CANADA